

November 24, 2023

NCR Eastern Peripheral Expressway Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	3,860.0	3,860.0	[ICRA]AAA (Stable); reaffirmed
Total	3,860.0	3,860.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of NCR Eastern Peripheral Expressway Private Limited (NCREPE) factors in the favourable location and operational nature of its road asset with a tolling track record of five years. There are nine highways that acts as a feeder for traffic to the Eastern Expressway, thereby reducing dependency on a single end-user industry/geography. The project was awarded under the Toll, Operate and Transfer (TOT) by the National Highways Authority of India (NHAI, rated [ICRA] AAA (Stable)) to NCREPE with appointed date of November 11, 2022. NCREPE registered a toll collection of Rs. 170 crore in FY2023 (November 11, 2022 to March 31, 2023) with average per day toll collection of Rs. 1.20 crore. The rating draws strength from the strong linkages and strategic importance for Indian Highway Concessions Trust (IHCT, rated [ICRA]AAA (Stable)), which is an infrastructure investment trust (InvIT) sponsored by Maple Highways Pte Ltd, an affiliate of Caisse de depot et placement du Quebec (CDPQ, rated by Moody's Investors Service at Aaa, Stable), to house operational road assets in India. NCREPE is the largest asset in IHCT accounting for 73% of the net present value of Cash Flow Available for Debt Servicing (CFADS) and 75% of the enterprise value¹ at the InvIT level. Moreover, IHCT has provided shortfall undertaking to lenders of NCREPE, wherein IHCT shall make adequate funds available three business days prior to the debt due date in case of shortfall. The rating takes comfort from NCREPE's healthy projected debt service cover with cumulative DSCR of above 1.60 times as per ICRA's base case estimates (includes Rs. 197 crore of top-up debt for the first major maintenance), supported by healthy toll collections and long debt amortisation tenure. The rating draws support from structural features – debt service reserve account (DSRA) equivalent to three months of debt obligation, escrow mechanism, cash flow waterfall, along with the flexibility arising out of the three-year tail period. Further, the company will maintain a major maintenance reserve account (MMRA) from FY2029. The project stretch has a closed loop tolling system in which toll is collected only for the distance travelled, and not for the entire length. Also, toll is collected only on the exit toll plazas, thus protecting toll leakages.

ICRA notes that there has been change in tolling mechanism by the authority, thereby adversely impacting the toll collections for a period of 129 days. Given that the change is not in line with the concession agreement, the company has filled for a total claim of ~Rs. 23 crore due to loss of toll revenue. ICRA is given to understand that the modification of toll rates was revoked from June 4, 2023. The daily toll collection has marginally declined to Rs. 1.19 crore for H1 FY2024 owing to aforesaid reason. However, the same has recovered to Rs. 1.25 crore as of September 2023. ICRA expects the toll collection to witness year-on-year (YoY) growth of around 6% in FY2024 and 9%-11% in FY2025.

Despite the importance of the project stretch, low alternative route risk and willingness of the users to pay toll, the project remains exposed to risks inherent in toll road projects, including risks of development/improvement of alternative routes and alternate modes of transportation (like Eastern DFC, Meerut RRTS and Alwar RRTS), moderation in traffic growth rates, or lower-than-anticipated WPI leading to lower toll collections, which could weaken its coverage metrics. ICRA, in its base case assumptions, has factored in some shift in traffic due to other modes of transportation. Any higher-than-anticipated reduction in traffic will be a key monitorable. NCREPE's cash flows are also exposed to interest rate risk, considering the floating interest

¹ As per company's estimates

rates on the project loan. NCREPE has appointed Egis India as an routine maintenance (O&M) contractor. In absence of a pre-defined MM schedule in the Concession Agreement, periodic maintenance is required on need basis, which may result in a volatility in operating expenses. The project stretch is based on rigid pavement, which generally do not require a large-scale major maintenance unlike a flexible pavement road. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the projected strong cash flows and significant cushion built in the cost estimates for undertaking the O&M and MM expenditure.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that NCREPE will continue to benefit from the importance of the project stretch, healthy coverage metrics and high degree of financial support from IHCT.

Key rating drivers and their description

Credit strengths

Operational asset with favourable location – The rating factors in the favourable location and operational nature of the asset with a tolling track record of five years. Eastern Peripheral Expressway (National Expressway 2) is a six-lane wide expressway passing through Haryana and Uttar Pradesh. Along with the Western Peripheral Expressway, it forms part of the largest ring road around Delhi NCR. There are nine highways that acts as a feeder for traffic to the Eastern Expressway, thereby reducing dependency on a single end-user industry/geography. Owing to shorter time taken as compared to city roads, the stretch, though being tolled, remains the preferred route for passenger vehicles. Presence of various industries and warehouses in the vicinity of the project road contributes to the sticky nature of the commercial traffic, especially for short-haul traffic (having trip lengths of less than 200 km), which dominate the project stretch. Further, it is being connected to the Yamuna Expressway, which is expected to be completed over the medium term. The project stretch has a closed loop tolling system in which toll is collected only for the distance travelled, and not for the entire length. It registered a toll collection of Rs. 170 crore during November 11, 2022 to March 31, 2023 resulting in average per day toll collection of Rs. 1.20 crore. ICRA expects the toll collection to witness YoY growth of 6% in FY2024 and 9%-11% in FY2025.

Strong parentage, healthy debt service cover and part of InvIT structure provides financial flexibility – NCREPE is a wholly-owned subsidiary of IHCT, an InvIT sponsored by Maple Highways Pte Ltd, an affiliate of CDPO, to house operational road assets in India. NCREPE is the largest asset in IHCT accounting for 73% of the net present value of CFADS and 75% of enterprise value (as per the company's estimates) at the InvIT level. Moreover, IHCT has provided shortfall undertaking to the lenders of NCREPE, wherein IHCT shall make adequate funds available three business days prior to the debt due date in case of shortfall. The rating takes comfort from NCREPE's healthy projected debt service cover with cumulative DSCR of above 1.60 times as per ICRA's base case estimates (includes Rs. 197 crore of top-up debt for first major maintenance), supported by healthy toll collections and long debt amortisation tenure.

Presence of structural features – Structural features such as DSRA equivalent to three months of debt obligation, escrow mechanism, cash flow waterfall along with the flexibility arising out of the three-year tail period provide credit support to the term loan. Further, the company will maintain an MMRA from FY2029.

Credit challenges

Project cash flows sensitive to traffic growth and interest rates – Despite the importance of the project stretch, low alternative route risk and willingness of the users to pay toll, the project remains exposed to the risks inherent in BOT (toll) road projects, including risks of development/improvement of alternative routes and alternate modes of transportation (like Eastern DFC, Meerut RRTS and Alwar RRTS). Any moderation in traffic growth rates or WPI from the anticipated levels could weaken the project's coverage metrics. NCREPE's cash flows are also exposed to interest rate risk, considering the floating interest rates on the project loan.

Ensuring routine and periodic maintenance expenses within budgeted levels – NCREPE has appointed Egis India as an routine maintenance contractor. In absence of a pre-defined major maintenance schedule in the Concession Agreement, periodic maintenance is required on need basis, which may result in volatility in operating expenses. The project stretch is based on

rigid pavement, which generally do not require a large-scale major maintenance unlike a flexible pavement road. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the strong estimated cash flow and significant cushion built in the cost estimates for undertaking the O&M and MM expenditure.

Liquidity position: Adequate

The liquidity position is adequate with unencumbered cash balance of Rs. 95.2 crore as on March 31, 2023. Further, the company has a DSRA equivalent to one quarter of principal plus interest obligations, which stood at Rs. 83 crore as on March 31, 2023. The annual principal debt repayment is estimated at Rs. 16.4 crore, Rs. 33.8 crore and Rs. 61.8 crore for FY2024, FY2025, FY2026, respectively, which can be comfortably serviced from the operational cash flows.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Downward pressure on the rating could emerge if there is a significant decline in traffic, leading to reduction in the toll collections and impacting the coverage indicators. The rating may be revised downwards if the regular O&M and major maintenance expenditure is substantially above the budgeted costs. Non-adherence to debt structure or additional indebtedness (over and above already envisaged), which could have a material impact on coverage metrics, will trigger a rating downgrade. Specific metrics for a rating downgrade would be cumulative DSCR falling below 1.6 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Ultimate holding company: Indian Highway Concessions Trust (IHCT) ICRA expects NCREPE's parent, IHCT, to be willing to extend financial support to NCREPE, should there be a need, given the strategic importance that NCREPE holds for IHCT for meeting its diversification objectives and out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

NCREPE is a special purpose vehicle incorporated by IHCT, an InvIT sponsored by Maple Highways Pte Ltd, which is an affiliate of CDPQ (rated by Moody's Investors Service at Aaa, Stable). It has been set up for operating the 135-km six-lane expressway spread across Haryana and Uttar Pradesh. The project has been awarded by the NHAI under TOT Bundle 7 project. The construction of the stretch got completed in June 2018 and the stretch has been operational since then. NCREPE will have a concession period for 20 years for tolling and O&M of the Eastern Peripheral Expressway from the appointed date of November 11, 2022. NCREPE has paid the requisite upfront concession fees to the NHAI for acquiring the toll collection rights.

Key financial indicators (audited)

NCREPE – Standalone		FY2023
Operating income		171.0
PAT		-186.3
OPBDIT/OI		72.2%
PAT/OI		-109.0%
Total outside liabilities/Tangible net worth (times)		9.9
Total debt/OPBDIT (times)		46.8
Interest coverage (times)		0.5

Source: Company, ICRA Research, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

NCREPE follows Ind AS, and key financial ratios are not representative of actual cash flows.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				Date & rating in FY2022	Date & rating in FY2021
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023				
					Nov 24, 2023	Nov 21, 2022	Nov 03, 2022		
1 Term loans	Long term	3,860.0	3831.38	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	Provisional [ICRA]AAA (Stable)	Provisional [ICRA]AAA (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2023	NA	FY2040	3,860.0	[ICRA]AAA (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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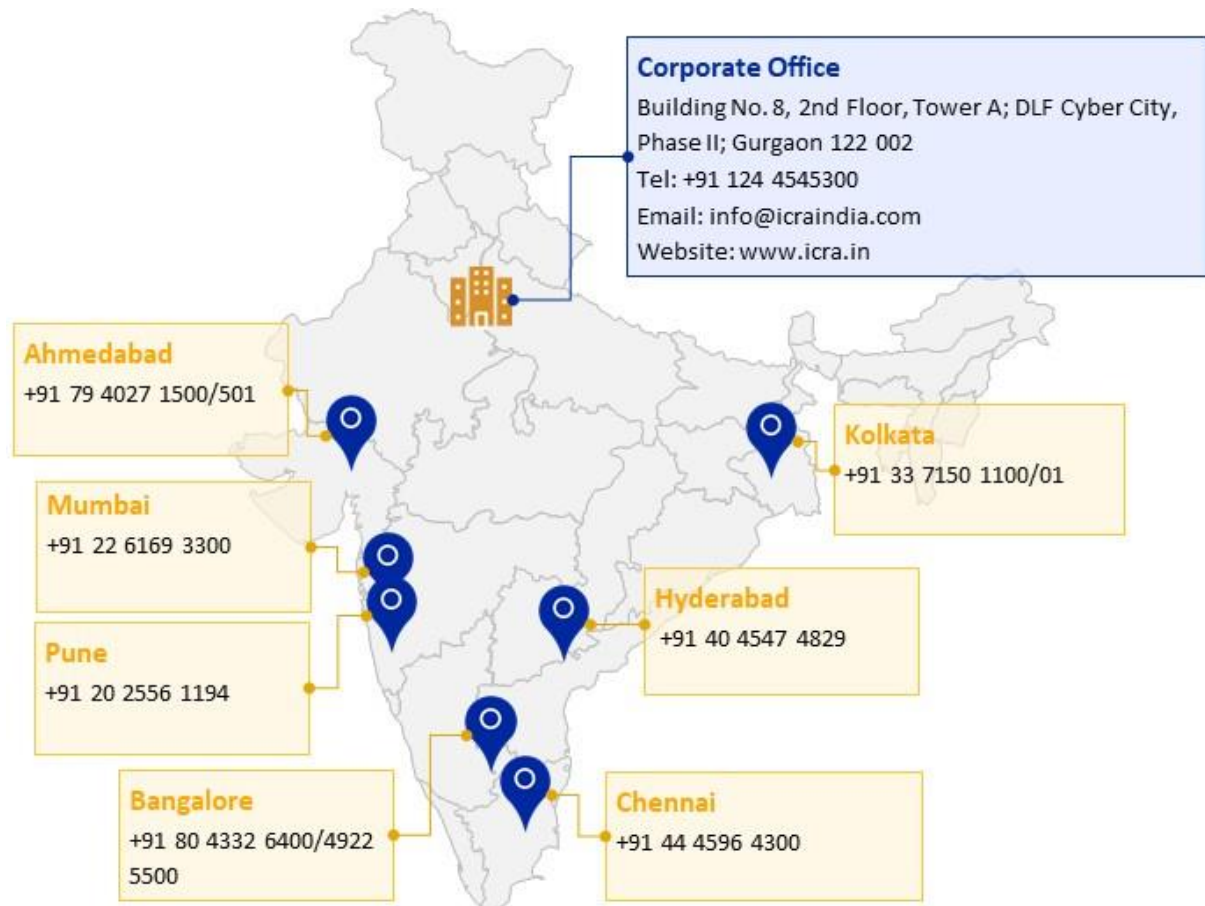
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